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TAX FOUNDATION'S MONTHLY VOL. 28, NO. 3 MARCH 1984

TAX·FEATURES

Tax Index Reaches Record Levels As 4Q83 Taxes Rise by $79.4 Billion

The Tax Index climbed to a record level of 453.8 (1967=100) in the fourth quarter of 1983, registering its fifth consecutive quarterly rise since the end of the recession, according to Tax Foundation's analysis of preliminary data. The annualized rate of increase over the previous quarter was 5.5 percent.

The fourth quarter 1983 Tax Index mirrored an annual rate of Federal, state, and local tax receipts totaling $995.2 billion, an increase of $79.4 billion or 8.7 percent from the fourth quarter of 1982. During the period, state and local taxes claimed the greatest share of the increase, rising by 13.3 percent ($42.0 billion) to $357.7 billion. By comparison, Federal taxes rose 6.2 percent ($37.4 billion) to $637.5 billion. In the last quarter of 1983, the Federal Tax Index stood at 430.2 and the State-Local Tax Index, at 502.9, both on the 1967 base.

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States' Biggest Haul From Sales Taxes— $50.3 Billion for '82

Slightly over 30 percent of all state tax collections come from general sales taxes, Tax Foundation economists say. This makes sales taxes, which are levied by 45 states, the single most productive revenue source employed by state governments, according to analysts at the Washington-based tax watchdog organization.

$50.3 billion was brought into state coffers by general sales and use taxes during fiscal year 1982. Connecticut's 7.5 percent sales tax heads the list for top rates, followed by: Washington (6.5 percent); Minnesota, Mississippi, New Jersey, Pennsylvania, and Rhode Island (6 percent); and Nevada (5.75 percent, which includes local tax). No state sales tax exists in Alaska, Delaware, Montana, New Hampshire, or Oregon, although municipalities in Alaska do impose sales tax.

Localities in 29 states levy sales taxes, generally in addition to those shown in the accompanying table. New York City and Yonkers, New York, with a combined state-local rate of 8.25 percent, are the highest in the nation. Oklahoma's 2 percent state rate is the lowest, although local taxes ranging up to 4 percent may also be imposed. (On February 15, 1984, the Governor of Oklahoma signed a bill raising the state's tax to 3 percent). Six states tax sales at a 3 percent rate.

Income taxes, both corporate and personal, are a fast-growing second source of state revenues. Only five states (Nevada, South Dakota, Texas, Washington, and Wyoming) have neither a corporate nor a personal income tax, and only seven states (the preceding five plus Alaska and Florida) have no individual income tax. (However, the individual income levies in Connecticut, New Hampshire, and Tennessee are quite narrowly based.) Individual income taxes comprised 28.1 percent and corporate income taxes, 8.6 percent of state tax revenues for a total of $59.7 billion in fiscal year 1982.

Income tax rates on corporations were highest in Iowa and Minnesota (12 percent); Connecticut (11.5 percent); Arizona, North Dakota, and Pennsylvania (10.5 percent). Top individual tax rates prevailed in Minnesota (16 percent); New York (14 percent); Delaware (13.5 percent); Connecticut, Iowa, and West Virginia (13 percent). In three cases state income taxes are levied as a percentage of Federal individual income tax obliga-

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Tax Index and Related Measures

Annually, and Quarterly at Seasonally Adjusted Annual Rates, 1967 = 100
Selected Periods, 1970 to 1983[a]

Calendar year and quarter	Tax Index			Output Index[b]		
	Total	Federal	State and local	Current prices	Constant prices	Price Index[c]
Annually						
1970	132.2	127.5	142.1	124.2	107.3	115.7
1975	204.3	191.0	232.1	193.8	122.0	158.8
1976	234.0	220.7	261.7	214.9	128.4	167.4
1977	263.1	249.7	291.1	239.9	135.4	177.1
1978	296.2	287.3	314.8	270.6	142.2	190.3
1979	331.5	328.4	338.0	302.4	146.3	206.7
1980	361.2	359.0	365.9	329.3	145.7	226.0
1981	412.0	416.0	403.6	369.5	149.7	246.8
1982	416.0	408.3	431.9	384.3	146.9	261.7
1983	443.5	424.8	482.3	413.9	151.8	272.7
Quarterly						
1981 I	404.6	409.5	394.3	358.5	149.3	240.1
II	408.7	413.2	399.4	364.3	149.5	243.6
III	419.7	423.8	411.2	375.6	150.9	249.1
IV	416.4	417.0	415.1	379.2	149.0	254.5
1982 I	412.9	410.4	418.1	377.9	146.9	257.2
II	416.8	411.4	427.9	384.0	147.3	260.8
III	416.5	406.5	437.4	386.5	146.9	263.1
IV	417.6	405.0	443.8	388.9	146.4	265.6
1983 I	426.3	412.1	456.1	396.6	147.3	269.2
II	446.0	431.2	476.6	409.2	150.8	271.4
III	447.8	425.8	493.4	420.5	153.6	273.8
IV	453.8	430.2	502.9	429.2	155.3	276.4

[a]Annual and fourth quarter figures for 1983 are preliminary.
[b]Gross national product.
[c]Implicit price deflator for gross national product.
Source: Tax Foundation computations and estimates based on data from U.S. Department of Commerce, Bureau of Economic Analysis.

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(STATE TAXES, from page 1)

tions—in Nebraska, Rhode Island, and Vermont.

All 50 states tax gasoline, with the highest rates prevailing in Minnesota (17 cents); Washington (16 cents); Nebraska (15.4 cents); Hawaii (where combined state-local rates range from 12.5 to 15 cents per gallon); and Michigan, Wisconsin, and Montana (all 15 cents). Florida (4 cents), Texas (5 cents), Oklahoma (6.58 cents), and Missouri (7 cents) place the lowest levies on gasoline. The motor fuel taxes in Georgia, Maryland, and Rhode Island are levied at specific percentages of the wholesale or retail selling price of the product. In addition, some states also tax motor fuels under the states' general sales tax. In fiscal 1982, the states collected $10.4 billion, 6.4 percent of their total taxes, from motor fuels levies.

Cigarette taxes are another important source of state tax revenues. In fiscal 1982, the states collected $4.0 billion, or 2.4 percent of their total taxes, from tobacco products excises.

All states have local property taxes, and 42 have state property taxes; 39 states have both general sales and income taxes; and 33 states have general sales, income, and property taxes.

The accompanying table gives further details, as of January 1, 1984, for major taxes and rates prevailing in the states.

Major Taxes and Rates Used by States
As of January 1, 1984

State	Income taxes: Corporation	Income taxes: Individual	General sales and use tax	Gasoline tax (per gallon)	Cigarette tax (per pack of 20)	Property tax
Alabama	5% (F)	2 to 5% (F)	4%[a]	11¢	16¢	X
Arizona	2.5 to 10.5 (F)	2 to 8 (F)	5[a,b]	12[c]	13	X
Arkansas	1 to 6	1 to 7	4[a]	9.5	21	X
California	9.6	1 to 11	4.75[a]	9	10	X
Colorado	5	2.5 to 8 (F)	3.5[a,b]	12	15	X
Connecticut	11.5[d]	6 to 13[e]	7.5	14	26	X
Georgia	6	1 to 6	3[a]	7.5 + 3% of retail	12	X
Hawaii	5.85 to 6.435	2.25 to 11[f]	4	12.5 to 15	40% wholesale	
Idaho	7.7[f]	2 to 7.5	4.5[b]	14.5	9.1	X
Illinois	4.8	3	5[a]	11[c]	12	X
Indiana	3[g]	3	5	11.1	10.5	X
Iowa	6 to 12 (F)	5 to 13 (F)	4	13	18	
Kansas	4.5[h]	2 to 9 (F)	3[a]	11	16	X
Kentucky	3 to 6	2 to 6 (F)	5[a]	10	3	X
Louisiana	4 to 8 (F)	2 to 6 (F)	3[a]	8	11	
Maine	3.5 to 8.93	1 to 10	5	14	20	X
Maryland	7	2 to 5	5	13.5[b,k]	13	X
Massachusetts	8.33[j]	5[j]	5	11	26	X
Michigan	2.35	6.1[f]	4	15	21	X
Minnesota	6 to 12	1.6 to 16[m] (F)	6[a]	17	18	X
Mississippi	3 to 5	3 to 5	6[b]	9	11	X
Missouri	5 (F)	1.5 to 6 (F)	4.125[a]	7	13	X
Nebraska	5 to 7	20% of Federal income tax	4[a,b]	15.4	18	X
New Jersey	9[n]	2 to 3.5[o]	6	8	25	X
New Mexico	4.8 to 7.2	2 to 7.8[f]	3.75[a]	11	12	X
New York	10[p]	2 to 14	4[a]	8	21	
North Carolina	6	3 to 7	3[a]	12	2	X
North Dakota	3 to 10.5 (F)	2 to 9[q] (F)	4[r]	13	18	X
Ohio	5.1 to 9.2	5 to 5[f]	5[a]	12	14	X
Oklahoma	4	5 to 6[f] (F)	2[a]	6.58	18	
Pennsylvania	10.5	2.45	6[a]	12	18	X
Rhode Island	8[f]	26% of Federal income tax	6	13[k]	23	X
South Carolina	6	2 to 7 (F)	4	13	7	X
Tennessee	6	4 to 6[e]	4.5[a]	9	13	
Utah	4.65	2.75 to 7.75[f] (F)	4.625[a,b]	11	12	X
Vermont	5 to 7.5	26% of Federal income tax	4	13	17	X
Virginia	6	2 to 5.75	3[a]	11	2.5	X
West Virginia	6 to 7	3.3 to 13	5	10.5	17	X
Wisconsin	7.9	3.4 to 10[m]	5[a]	15[c]	25	X
Florida	5		5[a]	4	21	X
Nevada	These 5 states have no corporate income tax	These 7 states have no individual income tax	5.75[a]	10.25	15	X
South Dakota			4[a]	13[b]	15	
Texas			4[a]	5	18.5	
Washington			6.5[a]	16[c]	23	X
Wyoming			3[a]	8	8	X
Alaska	1 to 9.4		These 8 states have no general sales tax	8	8	X
Delaware	8.7	1.4 to 13.5 (F)		11	14	
Montana	6.75[f]	2 to 11 (F)		15	16	X
New Hampshire	8[u]	5[e]		14	17	X
Oregon	7.5[f]	4.2 to 10.8 (F)		9	19	X

(X) Indicates state levies a property tax.
(F) Allows Federal income tax as a deduction.

[a] Local taxes are additional.
[b] Rate reductions scheduled during 1984.
[c] Rate increases scheduled during 1984.
[d] If tax yield is greater, 3.1 mills per dollar of asset value ($250 to $100,000) or 5% of 50% of net income and certain compensation.
[e] In Connecticut, New Hampshire, and Tennessee, tax applies to income from intangibles only, at various rates according to type.
[f] Qualified taxpayers may elect to pay alternative taxes at varying rates.
[g] Tax is the greater of 3% of taxable income or the gross income tax. A supplemental net income tax is imposed at 4%.
[h] A 2-1/4% surtax is imposed on taxable income in excess of $25,000.
[i] Deductions limited.
[j] Additional 14% surtax is imposed.
[k] Tax imposed at percent of wholesale value.
[l] Tax of 10% on income derived from intangibles, and 5% on all other income, and an additional 7.5% tax.
[m] Plus 10% surtax for 1984 and 1985 in Minnesota, and 10% surtax for year 1984 in Wisconsin.
[n] Additional tax on net worth is part of the corporate franchise tax.
[o] Liability is for standard New Jersey personal income tax; taxpayers pay New Jersey-New York commuter's tax (2 to 14%) if larger.
[p] Alternative methods of calculation are used if tax yield is greater.
[q] Optional tax of 7.5% of taxpayer's adjusted Federal income tax liability.
[r] To be raised to 5% if general fund receipts ending June 24 are below $400 million.
[s] Surtax is imposed at 90% of basic tax.
[t] Liability is 40¢ per $100 of net worth if higher.
[u] Surtax of 13.5% is imposed.

Source: Compiled by Tax Foundation from data reported by Commerce Clearing House.

(TAX INDEX, from page 1)

For the year 1983 as a whole, the overall Tax Index stood at 443.5—6.6 percent above 1982 and 7.6 percent higher than in 1981, before most of the recently legislated Federal and state tax changes became effective. Federal taxes in 1983 were lowered by provisions of the Economic Recovery Tax Act of 1981 (ERTA), although 1982 Congressional action took back some of the original reductions. At the same time, state and local statutory provisions have worked in the opposite direction, pushing tax yields above their levels in the absence of new laws.

Reflecting tax legislative changes along with economic activity, total tax receipts rose by $69.1 billion between 1981 and 1983 to a total of $972.6 billion in 1983. State-local taxes rose by $56.0 billion, accounting for more than 80 percent of the dollar increases during the two-year period. Federal taxes, traditionally about twice the size of state-local taxes, rose by only $13.1 billion at the same time.

During the 1981-1983 period, tax payments to all governments dropped from 30.6 to 29.4 percent of gross national product (GNP), primarily reflecting the 1981 Federal tax cuts. Federal taxes dropped from 20.9 percent of GNP in 1981 to 19.0 percent in 1983. On the other hand, the share of GNP claimed by state and local taxes rose from 9.7 percent to 10.4 percent.

The largest source of dollar growth in tax receipts during the period was contributions for social insurance (OASDHI and unemployment insurance taxes). For the two-year period these receipts grew by $34.5 billion or almost 15 percent.

The second largest source of the two-year increase was indirect business taxes, a category covering sales, excise, and most property taxes. State-local taxes in this

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Gobbling Up the Economic Pie

By Paul W. McCracken

While deficits dominate fiscal discussions, they are not the fundamental fiscal problem confronting the U.S. and, for that matter, the Western world. The fundamental problem is the relentless tendency for government to pre-empt a growing proportion of the national income and output.

The deficit projections leave one with the feeling of standing on the edge looking into an almost limitless abyss. In his Budget Message, the president does project a deficit declining from this year's estimated $184 billion to $123 billion by 1989, with outlays in that year of $1.183 trillion, and receipts of $1.06 trillion. (These figures are about the size of the total gross national product in the early 1970s.) But this substantial shrinkage assumes some legislative actions proposed by the president, as the Budget Message is a pricing out of his proposed program, not a mere prediction of statistical things to come. On the basis of current tax and spending programs, however, the deficit for fiscal 1989 is projected to be $65 billion to $70 billion larger. And with so-called off-budget items included, the projected deficit for that year could be in the $200 billion zone.

Isn't the Proper Path

Other estimates are still higher. The Congressional Budget Office puts the deficit by 1989 at $326 billion if national defense budget authority rises 5% in real terms a year (which is roughly current policy), and $249 billion if there is no such real growth for defense.

Those who insist that this is not the proper path for the budget are, of course, correct. And there is a wide measure of agreement on this matter. For example: "...we cannot delay until 1985 to start reducing the deficits that are threatening to prevent a sustained and healthy recovery." This is not a pronunciamento by Messrs. Feldstein or Stockman or some mogul from the financial community. These words are Ronald Reagan's, in that part of the Economic Report that the president himself signs.

He is, of course, on target. The pool of funds available to all potential borrowers in any year will be 14% to 15% of GNP. If in 1989 our GNP is about $5.5 trillion, as projected in the Budget Message, about $800 billion of funds would then be available in credit markets for all borrowers. Experience suggests that the vigorous consumer and business capital formation required to make 1989 a reasonably prosperous year would involve about $700 billion of private borrowing. If the 1989 deficit is $300 billion, then the Treasury must pre-empt that much of the funds in credit markets, and the private economy would be about $200 billion short. These figures can, of course, lay no claim to precision, but they are broadly indicative of our problem.

As best the fiscal situation can be "modeled," we should guide the budget on a path that will assure a federal deficit five years hence of not more than $100 billion. If a more ambitious target could be achieved, so much the better—meaning, as it would, an even higher investment economy. And a good 1984 "downpayment" (to use the current buzzword) would do a lot for interest-rate levels and the readjustment of exchange rates so essential for redressing our severe trade imbalance.

Yet it is also true that simply plunging ahead toward a downpayment on the deficit might accomplish surprisingly little, even if a 1984 downpayment package can be fashioned, unless we see the larger war of which this deficit is one battle. We must deal with the relentless appetite of government for an ever-increasing share of the national income and output. In the U.S., outlays of government at all levels (federal, state and local) were equal to about 20% of the GNP as the 1950s opened, and this ratio is about 34% today. Moreover, the problem is more troublesome than this figure might imply.

For one thing, the economic pie that can be divided up on an ongoing basis is not gross national product, but net national product. This is not mere pedantry. It is net national product that attempts to measure the output of goods and services beyond what has to be produced to offset worn-out machinery, equipment and capital goods. Of our total gross output, 11% to 12% represents such replacement capital. Thus the share of the true economic pie being taken by government is not really 34% now, but about 38% to 40%.

That share started accelerating as we moved into the current decade. From 1979 to 1981, the rise in government spending was equal to 43% of the rise in GNP and to almost 50% of the rise in net national product (with cyclical influences stripped out). And if the uses of economic resources mandated by government through its credit programs and direct regulatory decrees are added, the public sector was pre-empting well over half the in-

This article, by Tax Foundation Trustee Paul W. McCracken, appeared in The Wall Street Journal, *on February 28, 1984. Because of its cogency, we have reproduced this article in its entirety for our readership, with permission.*

creases in income and output.

In many other countries in the Western world, this government share of incomes and output was moving ahead even faster. For Belgium, the Netherlands and Sweden, the rise in government outlays during the last decade was equal to about 75% or more of the rise in net national product, and for France and West Germany the figure was roughly 60%.

This growing government pre-emption robs the economy of vitality. In its June 1982 annual report, the Bank for International Settlements provided evidence suggesting that the retardation in rates of economic growth during the 1970s was associated with the rate of increase in the share of incomes and output channeled through government. This is not surprising. An economy in which the good things of life are seen to come through government downgrades productive effort as the route to income, and it fosters the formation of interest groups to claw for a larger share of the budget trough. With a per capita political influence larger than that of citizens generally, these organized groups can push the growth of government beyond what people want and are willing to pay for.

Forcing the allocation of a growing share of incomes and output through public-sector programs also produces a wasteful tailoring of limited economic resources to almost infinitely diverse patterns of consumer preferences.

It is not amiss to remember that heavy public-sector pre-emption of incomes and output is associated inevitably with the emergence of underground economies. The best evidence for this is quite simply that the magnitude of underground economic activity is now a subject of analytical articles in scholarly journals. There is, in short, a moral decay problem if government, rather than performance in competitive markets, is to be the avenue for success.

The basic budget problem for the 1980s, therefore, is how to strengthen fiscal discipline—how to restrain the relentless pressures for increased government. If the tax reductions of recent years have done nothing more, they have served to focus our attention on this issue.

In the slow and often inscrutable ways these things take shape, a congealing conviction does seem to be emerging in the public mind to halt government growth. And public opinion congealing on this (or any other) issue is a potent force even against the counterpressures of organized interest groups. Black-ink budgets were the rule in our history up to 1930 (outnumbering red-ink years, except for war periods, 3 to 1) even though we never had a law requiring them. We had that record because that was decreed to be the fiscal rule "by common consent." Nudged along, the emergency of such a common-consent rule could become a potent force for better budgets once again, even after a half-century lapse.

More Explicit Constraints

Yet after a half century, when both in practice and theory we convinced ourselves that a more relaxed view was appropriate, more explicit constraints may be required. Certainly the president ought to have his power of limited impoundment restored. That part of the Congressional Budget and Impoundment Act of 1974, which did set up the current useful machinery in the Congress, should be rescinded. Experience at the state level argues for the wisdom of giving the president the power of item veto. Thus members of Congress could have it both ways—voting for constituent projects, and relying on the president to clean up the budget.

Even stronger formal boundaries on the pre-emption of incomes and output by government may well be needed. Some sort of constitutional amendment requiring a better balance in the budget between revenues and outlays is starting to look more attractive. By the end of the decade, the howls of outrage against these ideas may be seen as little more than the usual establishmentarian disinclination to entertain new thoughts—plus the natural preference of those who like the public trough better than earning through performance in competitive markets.

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Corporate Taxes: Alive and Well

The President's Budget for fiscal 1985 projects receipts from the corporate income tax of $66.6 billion for the year ending September 30, 1984, an increase of nearly $30 billion over the previous year. In the next few years corporate income tax payments will continue to rise rapidly, reaching $97.9 billion by fiscal 1987.

Corporate income tax payments, according to the Budget, will be the fastest growing component of total Federal tax revenues. While individual income taxes are projected to rise at an average annual rate of 8.6 percent and social insurance contributions at an average annual rate of 11.6 percent from 1983 to 1987, corporate income tax payments are projected to have an average growth rate of 27.5 percent.

This may seem surprising in light of some recent ar-

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Amounts and Average Annual Growth Rates of Budget Receipts by Major Source
Selected Fiscal Years 1975-1987

Source	Receipts (in billions) 1975	1982	1983	1987[a]	Average annual growth rate (percent) 1975-82	1983-87
Individual income taxes	$122.4	$297.7	$288.9	$401.6	13.5	8.6
Social insurance taxes and contributions[b]	84.5	201.5	209.0	324.1	13.2	11.6
Corporate income taxes	40.6	49.2	37.0	97.9	2.8	27.5
Other taxes	31.6	69.4	65.7	63.4	11.9	−0.9
Total receipts	279.1	617.8	600.6	887.0	12.0	10.2

[a] As projected in the Administration's Fiscal 1985 Budget.
[b] Includes OASDHI, unemployment insurance, and employee contributions to Federal retirement systems.
Source: Office of Management and Budget, and Tax Foundation computations.

THE FRONT BURNER

By Robert C. Brown
President
Tax Foundation, Incorporated

"The Annual Charade"

Soon Congress must vote once again to raise the ceiling on the indebtedness which the U.S. Treasury may incur to $2 trillion. Everyone knows that members of Congress will harrumph long enough to keep the folks back home impressed with just how austere they are and then vote to raise the ceiling.

Maybe we should just sit back and enjoy this perennial rite, let Congress get the need to talk fiscal restraint while voting financial profligacy off its chest, and then get on with the business of running the government. Maybe, but the annual charade rankles—especially when talk of responsibility is so flagrantly contradicted by repeated overwhelming votes for big spending—votes participated in by members from both parties and in both Houses of Congress.

On November 18, 1983, Congress approved an additional $101 billion in government borrowing authority and adjourned. They did so without even seriously attempting to meet their own mandate to approve $85 billion in deficit reductions for fiscal year 1984-86. In fact, Congress voted down every major deficit reduction measure which might have put that body in compliance with its own fiscal 1984 budget resolution.

This is the roll call on spending authority approved by the first session of the 98th Congress:

- Defense—$249.8 billion. Passed 311-99 in the House; 75-6 in the Senate.
- Energy and Water Development—$14.3 billion. Passed 337-82 in the House; 82-12 in the Senate.
- Housing and Urban Development/Independent Agencies—$55.8 billion ($6.4 billion more than requested). Passed 314-99 in the House; 79-17 in the Senate.
- Labor-Health and Human Services-Education—$96.5 billion ($1.3 billion more than requested). Passed 323-79 in the House; voice vote in the Senate.
- State, Justice, Commerce—$10.5 billion ($0.5 billion more than requested). Passed 417-3 in the House; voice vote in the Senate.
- Military Construction—$7.1 billion by voice vote in both Houses.
- Transportation—$10.9 billion, also by voice vote.

These bills account for nearly 98 percent of all appropriations voted during the 1st Session of the 98th Congress. In each, we see the overwhelming tendency to "write the check" for public spending. When the time comes, some time before mid-April, to deposit the funds to cover that check by raising the debt ceiling, we will undoubtedly hear vehement expressions of outrage at the need to ante-up for the spending Congress has already voted.

In a ranking of 14 public institutions by the Harris organization last fall, Congress came in eighth. Lack of respect is threatening to make this vital deliberative body the Rodney Dangerfield of public institutions. If members should wonder why, they might look at how they handle fiscal policy. Specifically, they might look at their unfortunate habit of voting on both sides of the issue when it comes to paying for the programs they establish.

"Lack of respect is threatening to make this vital deliberative body the Rodney Dangerfield of public institutions."

"Corporate profits' share of national income declined from 12.3 percent in 1968 to 6.7 percent in 1982."

(CORPORATE TAXES, from page 3)

ticles highlighting the decline in the proportion of corporate income taxes to total Federal taxes. Certainly corporate income tax payments no longer make up the same share of national income or Federal receipts as they did ten or fifteen years ago.

Corporate profits' share of national income declined from 12.3 percent in 1968 to 6.7 percent in 1982. Wages and salaries, on the other hand, maintained a 64.0 percent share of national income over the same period. In dollar amounts, corporate profits rose by $76 billion, or 85 percent, from 1968 to 1972. At the same time, wages and salaries grew nearly fifteen times as much—by $1,099 billion, or 234 percent. Whereas wages and salaries have steadily grown even through recessions, corporate profits have fluctuated dramatically.

In 1968, corporate income tax payments comprised 18.7 percent of all Federal receipts. In that year, social insurance contributions from businesses, employees, and the self-employed were equal to 22.5 percent of total receipts. By 1978, the corporate share had dropped to 15.0 percent while social insurance contributions had risen to 30.3 percent. For 1982, corporate receipts comprised 8.0 percent and social insurance contributions comprised 32.6 percent of total budget receipts.

This proportional decline does not have a corresponding decline in dollar amounts paid by corporations. The aggregate payments rose steadily throughout the seventies, except for reductions during recessions in 1970-1971, 1974-1975, and 1982-1983. After each recession, corporate tax payments rebounded to a level above the previous high. Why then the decline as a proportion of total tax receipts?

"Of the $49.8 billion in tax relief that was enacted in ERTA for corporations, there remains only $13.0 billion in 1987."

Social insurance contributions have increased at a rate faster than overall receipts, thus raising their proportionate share of the total Federal tax burden. Between 1975 and 1982, social insurance contributions grew at an average annual rate of 13.2 percent. At the same time, individual income tax payments, still the dominant source of Federal revenues, were expanding at an accelerated pace due to the interaction of inflation and the graduated rate structure. During this same period, 1975 to 1982, individual income taxes grew at an average annual rate of 13.5 percent.

The Economic Recovery Tax Act of 1981 (ERTA) reduced the growth rate of individual income taxes by reducing the top marginal rate from 70 percent to 50 percent, by lowering the marginal rates approximately 25 percent, and by indexing the individual income tax for inflation in 1985. In dollar terms, ERTA alone reduced individual tax payments $166.4 billion in 1987 from what they would have been otherwise. For corporations, ERTA was to reduce their tax payments $49.8 billion in 1987, primarily through the Accelerated Cost Recovery System (ACRS) and safe-harbor leasing.

Since 1981, several major tax increases have been legislated that have taken away many of the business provisions of ERTA. In fact, of the $49.8 billion in tax relief that was enacted in ERTA for corporations, there remains only $13.0 billion in 1987. If the proposals included in the President's Budget are also taken into account, the 1987 total drops to $8.9 billion.

The corporate income tax is alive and kicking. The marginal tax rate on most corporate profits is 46 percent before taking account of state and local levies, tax benefit transfers have been greatly restricted, and the benefits of the investment tax credit and the ACRS provisions have been curtailed.

Tax Index Highlights

Highlights of tax changes mirrored by the Tax Index between 1981 and 1983:

Total taxes. Up by $69.1 billion or 7.6 percent. Federal taxes up by $13.1 billion or 2.1 percent. State-local taxes up by $56.0 billion or 19.5 percent.

Taxes and GNP. Total taxes down from 30.6 to 29.4 percent of GNP. Federal down from 20.9 to 19.0 percent. State-local up from 9.7 to 10.4 percent.

Personal income taxes. Total up by $9.6 billion or 2.8 percent. Federal down by $1.9 billion or .6 percent. State-local up by $11.5 billion or 24.0 percent.

Corporate profits tax accruals. Total down by $7.1 billion or 8.6 percent. Federal down by $8.2 billion or 12.1 percent. State up by $1.1 billion or 7.2 percent.

Indirect business taxes (sales, excises, property). Total up by $31.7 billion or 13.6 percent. Federal down by $4.9 billion or 9.7 percent. State-local up $36.6 billion or 20.0 percent.

Contributions for social insurance (social security and unemployment compensation). Total up by $34.5 billion or 14.8 percent. Federal up $29.1 billion or 14.5 percent. State-local up $5.4 billion or 16.6 percent.

All other taxes (personal property, estate, and gift). Total up by $.4 billion or 2.6 percent. Federal down $1.1 billion or 15.7 percent. State-local up $1.5 billion or 17.6 percent.

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grouping rose by $36.6 billion from 1981 to 1983, or by 20.0 percent, more than offsetting a $4.9 billion reduction in Federal indirect taxes, including the windfall profits tax on oil.

The fastest growing taxes during the period were state-local personal income taxes, which jumped by 24.0 percent from 1981 to 1983, or by $11.5 billion. (This hike led the state-local personal income tax segment of the Tax Index to just over 1,000 in the final 1983 quarter—*the first component of the Index to reach the* 1,000 mark.) Reflecting the 1981 tax cuts, Federal personal income taxes dropped by $1.8 billion or .6 percent from 1981 to 1983.

Corporate profits tax accruals also showed diverse trends at the Federal and subnational levels. Federal taxes dropped $8.2 billion (12.1 percent) from 1981 to 1983, while state-local corporate taxes rose by $1.1 billion (7.2 percent).

Monthly Tax Features

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